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14 AUG 1957

MEMORANDUM FOR: Deputy Director/Intelligence

SUBJECT: Background for CFEP Discussion of Revised NSC 5704/1

1. The National Security Council has requested the CFEP to review US economic defense policy (NSC 5704/1). The Chairman of the CFEP in turn requested EDAC, on 25 June 1957, to review all aspects of this policy with the exception of those portions related to US unilateral controls on trade with Communist China which were assigned to a CFEP committee under the chairmanship of the Under Secretary of Commerce (Tab A). In addition, the Chairman of CFEP requested EDAC to review and comment on selected paragraphs of a JCS memorandum on "Future Courses of Action with Respect to COCOM/CHINCOM" (Tab B). This policy review was prompted by the inability of the United States to effect its proposed revision of China trade controls in CHINCOM during May 1957 (Tab C) and by a growing awareness in the economic defense community that, in the light of current conditions, the existing US economic defense policy clearly requires revision as it relates to Communist China.

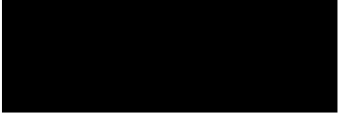
2. EDAC's proposed revision of NSC 5704/1 and its comments on selected paragraphs of the JCS memorandum were forwarded to the CFEP on 7 and 9 August respectively (Tab D). The only major change contained in the proposed policy revision is the elimination of an explicit statement of US intent to seek to maintain multilateral differential trade controls toward Communist China (old paragraph 21). The principal point of issue for CFEP determination relates to the substitute paragraph 21. Alternative A (proposed by State and Treasury) explicitly leaves the door open for multilateral and bilateral efforts to encourage other countries to maintain "differential" treatment toward Communist China. Other agencies believe that paragraph 21 should be eliminated (alternative B) since adequate policy direction is provided in other paragraphs -- specifically paragraphs 9, 10, and 18. As a compromise, four agencies -- Commerce, Defense, ODM, and Agriculture -- would support alternative C, which, like alternative A, would seek a form of differential control but through bilateral arrangements only. Other proposed changes are designed to conform US policy to current conditions and to allow the US to offer to COCOM, this fall, a program which will contain defensible proposals for commodity controls and which will be negotiable within COCOM.

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3. Paragraph 14 relating to intelligence support remains unchanged; it reflects a continuing attempt to make intelligence materials increasingly available and useful to the EDAC community. In this respect, a work program designed to implement the course of action called for in paragraph 9 (under either alternative) is currently under way in CIA and Defense (Tab E). CIA/CHR (with appropriate assistance from OSI) is preparing studies as outlined under paragraphs (4) (a) and (4) (b) ii of the work program and will review the special interest studies being prepared by Defense under paragraphs (4) (b) i, iii, and iv. The review of these special interest studies will be carried out through consultation and discussion with representatives of CIA principals to OMIC, JARIC, and SEC.

4. A CFEF meeting to discuss the policy revision is tentatively scheduled for Tuesday, 20 August.


OTTO E. GUTHE
Assistant Director
Research and Reports

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Enclosures:

- Tab A - CFEF Memorandum, 25 June 1957.
- Tab B - JCS Memorandum, 13 June 1957.
- Tab C - State Department Progress Report.
- Tab D - EDAC Memoranda, 7 and 9 August 1957.
- Tab E - Work Program, 24 July 1957.

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